

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 OES-06 SP-02 SS-15 STR-04 TRSE-00
ACDA-07 /094 R

DRAFTED BY EB/ORF/FSE:LRRAICHT:LS
APPROVED BY EB/ORF/FSE - LAWRENCE R. RAICHT
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O 111607Z PEB 77
FM SECSTATE WASHDC
TO AMEMBASSY LONDON IMMEDIATE
USMISSION OECD PARIS IMMEDIATE

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E.O. 11652: N/A. DECONTROL UPON RECEIPT

TAGS: ENRG

SUBJECT: SLT REVIEW OF CANADA.

FOR LONDON: PLEASE PASS FOLLOWING COMMENTS ON DRAFT REPORT
ON CANADA TO HARDING (FCO) FROM RAICHT.

FOR OECD PARIS: PLEASE PASS FOLLOWING COMMENTS ON DRAFT
REPORT ON CANADA TO IEA SECRETARIAT, FROM RAICHT.

FOLLOWING ARE MY COMMENTS ON DRAFT REPORT ON CANADA WHICH
I WOULD APPRECIATE YOUR INCORPORATING IN THE REPORT:

PAGE 1, PARA 1. STRIKE SECOND SENTENCE AND REPLACE WITH
FOLLOWING SENTENCES: "ACCORDING TO THESE FORECASTS,
CANADIAN NET OIL IMPORTS ARE PROJECTED TO INCREASE
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FROM 2.5 TO 54, MTOE BETWEEN 1975 AND 1985. THIS
GROWTH IS BASED ON AN INCREASE IN ENERGY CONSUMPTION OVER
THIS PERIOD FROM 190.6 TO 290.4 MTOE AND AN INCREASE IN
ENERGY PRODUCTION FROM 210.8 TO 262.0 MTOE." IN NEXT
SENTENCE, FIRST PARA, SUGGEST YOU STRIKE PHRASE "FROM
190 MTOE IN 1975 TO 290 MTOE IN 1985."

PAGE 2, LAST PARA: IN FIRST SENTENCE STRIKE "A REDUCED"
AND REPLACE WITH "ITS TARGET OF LIMITING". IN SECOND
SENTENCE REPLACE "MET" BY "ACHIEVED". STRIKE LAST

SENTENCE OF PARA AND REPLACE WITH FOLLOWING "THE SLT ESTIMATED THAT THESE TARGETS ARE ATTAINABLE BUT THEIR ACHIEVEMENT DEPENDS CRITICALLY ON THE FOLLOWING FACTORS: THE SPEED AT WHICH DOMESTIC ENERGY PRICES ARE ADJUSTED TO INTERNATIONAL LEVELS; CANADIAN SUCCESS IN FINDING AND DEVELOPING NEW ENERGY RESOURCES; AND THE EFFECT OF ADDITIONAL CONSERVATION MEASURES."

PAGE 3: SUGGEST ADD NEW FIRST SENTENCE IN SECTION 2 AS FOLLOWS: "A FACTOR CRITICAL TO THE ATTAINMENT OF CANADIAN ENERGY TARGETS WILL BE THE EFFECTIVENESS OF FEDERAL/PROVINCIAL COOPERATION." STRIKE "DELAYS IN . . . BALANCED COAL POLICY" IN SECOND SENTENCE, AND REPLACE WITH FOLLOWING PHRASE "REDUCTION OF INCENTIVES FOR ENERGY EXPLORATION AND DEVELOPMENT BY THE PRIVATE SECTOR BECAUSE OF FEDERAL/PROVINCIAL DISPUTES OVER THE SHARING OF REVENUES FROM ENERGY PRODUCTION BETWEEN 1973 AND 1975." STRIKE PHRASE IN LAST SENTENCE, SECOND PARA "BUT THERE ARE SOME DIFFICULTIES IN THE SPEED OF IMPLEMENTATION."

STRIKE SECOND SENTENCE, THIRD PARA. THIS SENTENCE "THE SCALE OF . . . 6.5 OF THE GDP" IS NOT RELEVANT TO THE ISSUE DISCUSSED IN THAT PARAGRAPH.

AFTER SECOND SENTENCE, SECTION 3, PRICING, SUGGEST FOLLOWING LIMITED OFFICIAL USE

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LOWING NEW SENTENCE BE INSERTED "GIVEN THE SIZE OF THE GAP BETWEEN DOMESTIC OIL PRICES IN CANADA AND INTERNATIONAL LEVELS, ACHIEVING THIS TARGET IS CLEARLY UNCERTAIN." ADD FOLLOWING LAST SENTENCE TO FIRST PARA UNDER SECTION 3 PRICING: "ATTAINMENT OF CANADA'S ENERGY OBJECTIVES MAKES IT ESSENTIAL THAT ENERGY PRICES BE MOVED TO INTERNATIONAL LEVELS AS RAPIDLY AS POSSIBLE." STRIKE SECOND PARA "WHILST IT IS . . . WITHIN A REASONABLE TIME SCALE."

STRIKE PARENTHETICAL PHRASE IN THIRD SENTENCE OF PARAGRAPH ON GAS PRICES.

ADD FOLLOWING PHRASE TO FIRST TICK IN PARENTHETICAL EXPRESSION UNDER CONSERVATION "AND WOULD BE AMONG THE MOST STRINGENT IN THE IEA."

ADD NEW FIRST SENTENCE TO SECTION 5, ACCELERATED DEVELOPMENT: "GIVEN THE EXTENT OF ESTIMATED CANADIAN ENERGY RESOURCES COMPARED TO RESOURCES AVAILABLE TO MOST OTHER IEA MEMBER COUNTRIES, ACTION IN THIS AREA IS MOST IMPORTANT."

FINAL PHRASE OF SECOND PARA UNDER OIL AND GAS SHOULD
READ AS FOLLOWS: "MUST BE CONSIDERED CONSTRAINTS TO
INVESTMENT IN THE DEVELOPMENT OF CONVENTIONAL AND
ALTERNATIVE SOURCES OF ENERGY IN CANADA."
AFTER FIRST SENTENCE, REWRITE THIRD PARAGRAPH
AS FOLLOWS: "HOWEVER, THERE -IS A POSSIBILITY OF AN
INTERMEDIATE SYSTEM USING LNG TANKERS FOR ARCTIC ISLAND
GAS. CANADIAN AUTHORITIES ARE CURRENTLY CONSIDERING
APPLICATIONS FOR THE CONSTRUCTION OF TRANSPORTATION
SYSTEMS TO MOVE PROVEN NATURAL GAS RESERVES IN THE
MACKENZIE DELTA TO MARKETS IN SOUTHERN CANADA. ONE
SYSTEM WOULD INVOLVE A JOINT PIPELINE WITH THE US CARRY-
ING ALASKAN NATURAL GAS AS WELL AS CANADIAN GAS. THE
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CANADIAN NATIONAL ENERGY BOARD AND A COMMISSION UNDER
JUSTICE BERGER, WHICH WAS ESTABLISHED TO EXAMINE THE
ENVIRONMENTAL AND SOCIO-ECONOMIC IMPACT OF CONSTRUCTION
OF A PIPELINE THROUGH THE MACKENZIE RIVER VALLEY ARE
EXPECTED TO SUBMIT REPORTS AND RECOMMENDATIONS TO THE
GOVERNMENT THIS YEAR. ON THE BASIS OF THIS ANALYSIS
IT IS EXPECTED THAT THE CANADIAN GOVERNMENT WILL DECIDE
WHETHER ANY PIPELINE SYSTEM SHOULD BE CONSTRUCTED AND IF
SO WHICH ROUTE WOULD BE APPROPRIATE."

IN LAST SENTENCE, LAST PARA, UNDER OIL AND GAS SECTION,
STRIKE "MARGINAL" AND AFTER " AREAS" INSERT PHRASE
"IN WHICH THE BULK OF NEW CANADIAN ENERGY RESOURCES ARE
ESTIMATED TO BE LOCATED."

SUGGEST REWRITE SECTION ON COAL AS FOLLOWS: "DEVELOPMENT
OF COAL RESOURCES IN CANADA SHOULD BE ANALYZED SEPARATELY
FOR METALLURGICAL AND STEAM COAL. CANADA IS IN THE
PROCESS OF DEVELOPING A NATIONAL POLICY ON METALLURGICAL
COAL. THIS POLICY IS EXPECTED TO BE COMPLETED BY 1978,
AND WILL INVOLVE THE PROVISION OF INCENTIVES FOR THE
CONSTRUCTION OF A WEST TO EAST TRANSPORTATION SYSTEM
FOR MOVING COAL RESOURCES IN WESTERN CANADA TO CONSUMING
AREAS IN THE EAST. DEVELOPMENT OF STEAM COAL PRODUCTION
IN CANADA HAS BEEN SUBJECT TO A NUMBER OF CONSTRAINTS
INCLUDING PROVINCIAL ENVIRONMENTAL CONDITIONS ON COAL
PRODUCTION, UNCERTAINTIES ABOUT MARKET DEMAND AND THE
ECONOMICS OF TRANSPORTATION OF STEAM COAL OVER LONG
DISTANCES.

HOWEVER, RECENTLY COAL PRODUCTION IN THE MAJOR PRODUCING
AREAS OF ALBERTA, SASKATCHEWAN AND BRITISH COLUMBIA HAVE
BEGUN TO EXPAND SIGNIFICANTLY. CANADIAN ENERGY POLICY
PROJECTS AN INCREASE IN COAL PRODUCTION FROM 1975 TO 1985
OF 15.2 TO 30.9 MTOES. TO ACHIEVE THIS TARGET, EXISTING
CONSTRAINTS ON COAL PRODUCTION AND THE CONSTRUCTION OF

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ADEQUATE TRANSPORTATION SYSTEMS WITHIN THE FRAMEWORK OF AN OVERALL NATIONAL COAL POLICY IS IMPERATIVE. AS A PROSPECTIVE MAJOR COAL EXPORTER, CANADA MUST ALSO CONSIDER THE EFFECT ITS COAL RESOURCES CAN PLAY IN THE EFFORT OF IEA COUNTRIES TO REDUCE THEIR DEPENDENCE ON IMPORTED OIL."

SUGGEST REWRITING NUCLEAR AND URANIUM SECTIONS AS FOLLOWS;
"THE REDUCTION IN THE EXPECTED GROWTH IN DEMAND FOR ELECTRICITY HAS RESULTED IN A DECREASE IN THE PROJECTED LEVEL OF NUCLEAR POWER ELECTRICITY GENERATION EXPECTED ON STREAM BY 1985. CANADIAN ENERGY AUTHORITIES NOW ESTIMATE THAT ONLY 11 GIGAWATTS WILL BE AVAILABLE BY THAT TIME. HOWEVER, THIS FORECAST ASSUMES REASONABLY STABLE WORLD ECONOMIC GROWTH AND ONLY A MINOR IMPACT ON PROJECTED NUCLEAR DEVELOPMENT IN CANADA FROM ADVERSE PUBLIC OPINION. BOTH THESE ASSUMPTIONS MAY BE OPTIMISTIC.

CANADA HAS BEEN A MAJOR EXPORTER OF URANIUM. THE RECENT IMPOSITION OF A REQUIREMENT THAT EXPORTS BE SHOWN TO BE IN EXCESS OF DOMESTIC REQUIREMENTS (DEFINED AS CURRENT NUCLEAR POWER PLANT REQUIREMENTS PLUS A THIRTY YEAR SUPPLY) WILL PROVIDE A RESTRAINT ON FUTURE EXPORT LEVELS AND ON INVESTMENT IN URANIUM PRODUCTION FACILITIES IN CANADA. HOWEVER, URANIUM PRODUCTION CAPACITY IS EXPECTED TO GROW SIGNIFICANTLY DURING THE PERIOD 1975-1985 TO 15,000 TONS OF URANIUM OXIDE."

SUGGEST NEW PARAGRAPH (D) TAR SANDS, AS FOLLOWS: THERE IS A CONSIDERABLE AMOUNT OF UNCERTAINTY WITH RESPECT TO THE RATE OF DEVELOPMENT OF CANADIAN TAR SANDS WHICH COULD PROVIDE SIGNIFICANT NEW ENERGY SUPPLIES. THE PRIMARY REASON FOR THIS IS THE RAPID INCREASE IN COST FOR THE LATEST TAR SANDS PROCESSING PLANT (SYNCRUDE). AS A RESULT, THERE IS INCREASING DOUBT AS TO THE ECONOMIC FEASIBILITY OF PRODUCING CRUDE OIL FEEDSTOCKS FROM
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CANADIAN TAR SANDS. AT THE PRESENT TIME, THERE IS ONE PLANT IN OPERATION (65,000 B/D) AND AN ADDITIONAL PLANT UNDER CONSTRUCTION (125,000 B/D). PREVIOUS PROJECTIONS BY CANADIAN AUTHORITIES ESTIMATED THAT FOUR TAR SANDS PLANTS WOULD BE IN OPERATION BY 1985 WITH A TOTAL OUTPUT OF 500,000 B/D. THE RECENT COST ESCALATION HAS RESULTED IN A SIGNIFICANT STRETCHOUT OF THESE PROJECTIONS.

IN FIRST SENTENCE OF SECOND PARAGRAPH UNDER SECTION C
"MEASURES TO REINFORCE", REPLACE "REDUCE" WITH "LIMIT"
AND ADD FOLLOWING PHRASE AT END OF SENTENCE "AND CONTI-
NUE EFFORTS TO DEVELOP INDIGENOUS ENERGY RESOURCES."

REVISE LAST SENTENCE OF PARA 3 AS FOLLOWS: "IN VIEW OF
THE HIGH RETURNS OBTAINED FROM EXPENDITURE ON CONSERVA-
TION, GOVERNMENT EXPENDITURES IN THIS AREA SHOULD BE
INCREASED."

INTRODUCTION TO FOURTH PARA UNDER MEASURES SHOULD BE
REWRITTEN AS FOLLOWS: "TO ATTAIN THE TARGET ESTABLISHED
BY THE CANADIAN GOVERNMENT FOR REDUCING THE RATE OF
GROWTH IN ENERGY DEMAND TO AN AVERAGE OF 3.5 PER ANNUM
BY 1985 CANADA SHOULD ADOPT A COMPREHENSIVE CONSERVATION
PROGRAM INCLUDING THE FOLLOWING MEASURES:"

UNDER ITEM 7 ADD FOLLOWING PHRASE:"AND AN EFFECTIVE MEANS
OF ENFORCING THEM."

REWRITE ITEM 9 AS FOLLOWS: ELIMINATE GRESSIVE TARIFF
STRUCTURE FOR ELECTRICITY AND NATURAL GAS."

ADD FOLLOWING SECTION ON REINFORCEMENT MEASURES ON
SUPPLY SIDE IN NEW PARA. "GIVEN THE MAJOR SHARE OF
PRODUCTION OF ENERGY RESOURCES IN CANADA COMPARED TO
MOST OTHER IEA COUNTRIES, THE FOLLOWING MEASURES TO
REINFORCE ACCELERATED DEVELOPMENT OF CONVENTIONAL AND
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NEW RESOURCES SHOULD BE IMPLEMENTED. (1) INTENSIFY
EFFORTS TO DELINEATE NEW ENERGY RESOURCES, PARTICULARLY
IN FRONTIER AREAS. (2) ENSURE THAT REQUIREMENT FOR
CANADIAN PARTICIPATION IN ENERGY EXPLORATION AND
DEVELOPMENT DOES NOT OPERATE AS A CONSTRAINT ON PRO-
DUCTION OF INDIGENOUS RESOURCES. (3) ESTABLISH A
DEFINITE TIME SCALE FOR MOVING ENERGY PRICES TO WORLD
MARKET LEVELS AND ENSURE THAT INCENTIVES TO THE PRIVATE
SECTOR FOR CONTINUING EXPLORATION AND DEVELOPMENT ARE
NOT REDUCED IN THIS PROCESS. (4) DECIDE RAPIDLY ON A
TRANSPORTATION SYSTEM FOR BRINGING NATURAL GAS
RESERVES IN THE MACKENZIE DELTA TO MARKET. (5) COMPLETE
THE DEVELOPMENT OF A COMPREHENSIVE NATIONAL COAL POLICY
PROVIDING ADEQUATE INCENTIVES FOR RAPID DEVELOPMENT OF
CANADA'S EXTENSIVE COAL RESERVES. (6) PREVENT THE
IMPOSITION OF FURTHER CONSTRAINTS ON ENERGY EXPORTS
TO OTHER IEA COUNTRIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AMENDMENTS, IMPORTS, PETROLEUM, REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 11-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE031497
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ORF/FSE:LRRAICHT:LS
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D770049-1057
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t197702100/baaaevge.tel
Line Count: 271
Litigation Code IDs:
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Litigation History:
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Message ID: 364d1fbf-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3233705
Secure: OPEN
Status: <DBA CORRECTED> jms 970909
Subject: SLT REVIEW OF CANADA.
TAGS: ENRG, UK
To: LONDON OECD PARIS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/364d1fbf-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009